THE BOND BUYER

L.A. County Advances Public-Private Building Project

By Keeley Webster
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LOS ANGELES — Los Angeles County has given the greenlight to a public-private project for a $270 million office building for its Department of Mental Health.

Last week's approval for pre-development and design followed the selection in February of the P3 team led by developer Trammell Crow Co. over four other applicants following a request for proposal process. The rest of the team is comprised of architectural firm Gensler, general contractor Hathaway Dinwiddie Construction Company, and Public Facilities Group.

PFG will act as the not-for-profit special purpose entity and issue tax-exempt bonds.

The firm, which split off from National Development Council in December, employs what it calls The American Model of providing financing for P3 project.

That model involves creating individual 63-20 nonprofit corporations to issue tax-exempt bonds directly, without a conduit issuer.

The Los Angeles County project will include a community center, multi-family housing, affordable senior housing, mixed-use retail space and a 400,000 square foot office building to house the County's Department of Mental Health. The office building is the first phase.

County supervisors approved $20 million in funding for design and pre-development on Aug. 8 enabling the team to begin the design phase of the project, said John Finke, PFG's president.

When the county structured the request for proposal it asked for proposals that would follow a P3 model that involves using tax-exempt bonds rather than private equity, Finke said.

"It is what the county refers to as the Alhambra Model and what I refer to as the New American Model of P3s," Finke said.

When Finke was with National Development Council — his team split off late last year to form PFG — it worked on the Alhambra Community Development Commission headquarters, completed four years ago in the western San Gabriel Valley portion of the county. It was the first P3 of that type the county worked on, Finke said.

The New American Model uses long-term tax exempt bonds with private delivery in a long term lease, he said. The building becomes the county's once its pays off the lease.

"We did the [Alhambra CDC] project and got it done ahead of schedule," Finke said. "They wanted a LEED Silver and we delivered a LEED Gold building."

Leadership in Energy and Environmental Design is a third-party certification program that is nationally accepted method of rating the design, operation and construction of high performance green buildings.

PFG is not a 501(c)3 nonprofit. For the financing, it creates a member 501(c)3 entity to issue bonds.

There are two ways that government can take control of the 501(c)3. When the debt is paid off, PFG transfers fee ownership. The government entity also can replace PFG with a joint powers authority or take over the issuing entity itself.

"Our mission is to help government build buildings," Finke said.

His philosophy is different from the Design-Building-Finance-Operate-Maintain structure common in the P3 space, which involves private equity instead of tax-exempt debt.

"They generally involve private equity and conventional debt and they eschew tax exempt debt," Finke said.

Tax-exempt debt offers the lowest financing cost available in the U.S., Finke said.

Los Angeles officials are currently evaluating whether to use the DBFOM model to build a new convention center. Finke said he has been keeping tabs on the Los Angeles project. He has several other projects in the Western U.S. in the early phases.

Finke expects that bonds will be issued in a year on the Los Angeles County mental health building project.

"It will take 44 weeks to complete the design phase — during that time, we will be working on the bond documents to finance the project," Finke said.

PFG is working with Barclays as the underwriter, but Finke said that could change when the county gets to the point of selecting the finance team to issue the bonds.